LAS VEGAS

EXECUTIVE SUMMARY

- What was once a well-known destination for gambling has become the home for a successful hockey, baseball and football team making Las Vegas more family-friendly.
- Rising construction costs and lack of available land has slowed down commercial real estate development.
- Lease rates have peaked and are expected to level out in 2020.
- Vacancy across all product types has reached pre-recession levels and is expected to continue its downward progression.

Las Vegas has experienced a significant face lift in recent years, the likes of which nobody saw coming. What was once one of the most popular and well-known destinations for gambling in the world, Las Vegas has become a diverse, sports-centric city drawing in fans from around the world. The huge success of the Golden Knights has turned many non-sports fans into hockey fanatics and spawned an increase in tourism not seen for many years. Added to this, the arrival of the Raiders in 2020 is expected to contribute significantly to growing tourism for years to come.

The local industrial market remains very positive in 2020. While industrial vacancy hovered above 10% in 2014, its steady decline continues its downward progression to under 5% as the first quarter of 2020 begins. The last time industrial vacancy was this low was 2006. Leasing activity was very strong in 2019 and is expected to outpace sales activity in the year ahead, having become a more affordable option as compared to purchasing a building. The challenge facing the industrial market is finding available land that makes financial sense to develop on. This hurdle coupled with increasing construction costs will likely hamper new projects in the near future.

Much like the industrial market, the local office market has experienced strong leasing and sales activity in 2019. Overall vacancy was just above 12% at the end of 2019. The last time it was this low was 2007. The gap between asking and actual lease rates has tightened significantly and a majority of the transactions happen at true market value. This has pushed landlords to become more competitive and offer additional incentives such as additional tenant improvement allowances and free rent in order to attract new tenants in lieu of lower lease rates. Many tenants are pushing for shorter lease terms due to uncertainty in the next presidential election and the fear of a possible recession. It is likely we will see longer lease terms become more common in 2021.

Medical office leasing was healthy in 2019, especially in second-generation space. It has become more challenging for physician groups to afford building out first-generation space from a shell condition due to higher construction costs and availability near a hospital. Lease terms have also been more favorable for second-generation medical space compared to the 7 to 10-year lease terms landlords require for new first-generation space. Lease rates on second-generation space continue to be more competitive for most practices looking to expand or relocate, and medical office vacancy is expected to continue its steady pace downward in 2020. The popularity of micro-hospitals continues to fill the niche in the submarkets that need it and is expected to grow in the years ahead.

AVISON YOUNG

KEY MARKET METRICS – 2020 EXPECTATIONS

Annual growth rates, estimated for year-end 2020 vs year-end 2019.

	OFFICE	RETAIL	INDUSTRIAL
Rental Growth	↑	→	↑
Vacant Space	↓	↑	↓
Construction Levels	↑↑	↑	↑
Leasing Volume	↑↑	↑	↑
Investment Volume (all sectors)	↑	↑↑	↑

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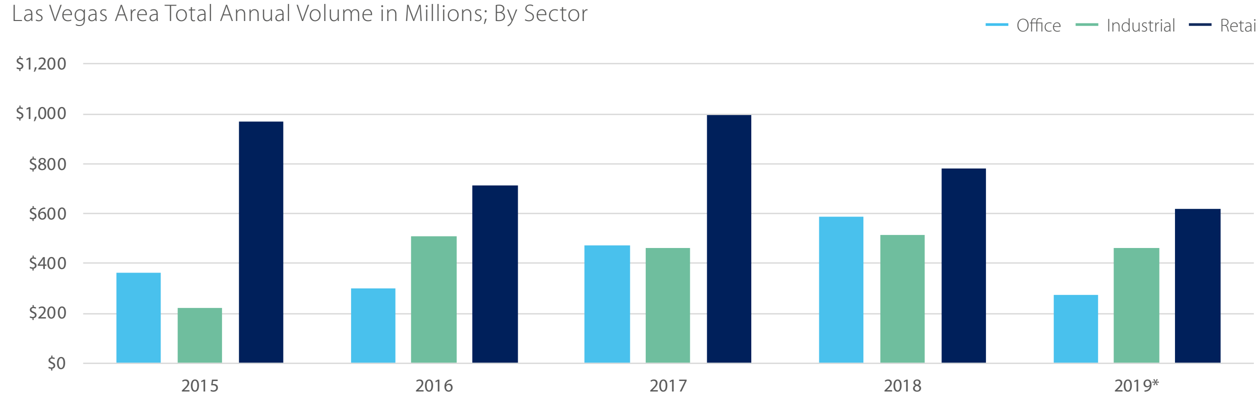
Las Vegas has once again become a city of growth. The amount of people moving to Las Vegas has outpaced the amount leaving. To meet the increasing needs of this population growth, the local retail market has gained significant traction. Those landlords taking advantage of the healthy economy have marketed their spaces at above-average asking rates. There has been a slowdown in the velocity of rental rate increases across all product types, and rental rates are expected to level out in 2020. All in all, the forecast for 2020 is bright with many opportunities ahead for relocations and expansions across the valley.

HISTORIC SALES VOLUME

Las Vegas Area Total Annual Volume in Millions; By Sector



**Does not include 4Q*
Source: Real Capital Analytics